

Problems

Consider the following cost items:

1. Salaries of players on the Boston Red Sox.
2. Year-end completed goods of Levi Strauss jeans.
3. Executive compensation costs at Home Depot.
4. Advertising costs for Sony.
5. Costs incurred during the period to insure a Ford plant against fire and flood losses.
6. Current year's depreciation on a Carnival Cruise Line ship.
7. The cost of printer ink and paper used during the period by Shutterfly.
8. Assembly-line wage cost incurred at a Kona bicycle plant.
9. Year-end production in process at Lenovo computer manufacturer.
10. The cost of products sold to customers of a Target store.
11. The cost of products sold to distributors of carpet manufacturer Shaw Floors.

Required:

1. Evaluate the costs just cited, and determine whether the associated dollar amounts would be found on the firm's balance sheet, income statement, or schedule of cost-of-goods-manufactured. (Note: In some cases, more than one answer will apply.)
2. What major asset will normally be insignificant for service enterprises and relatively substantial for retailers, wholesalers, and manufacturers? Briefly discuss.
3. Briefly explain the major differences between income statements of service enterprises versus those of retailers, wholesalers, and manufacturers.

The following selected information was extracted from the 20x1 accounting records of Lone Oak Products:

Raw material purchases	\$ 175,000
Direct labor	254,000
Indirect labor	109,000
Selling and administrative salaries	133,000
Building depreciation*	80,000
Other selling and administrative expenses	195,000
Other factory costs	344,000
Sales revenue (\$130 per unit)	1,495,000

*Seventy-five percent of the company's building was devoted to production activities; the remaining 25 percent was used for selling and administrative functions.

Inventory data:

	January 1	December 31
Raw material.....	\$ 15,800	\$18,200
Work in process.....	35,700	62,100
Finished goods*	111,100	97,900

*The January 1 and December 31 finished-goods inventory consisted of 1,350 units and 1,190 units, respectively.

Required:

1. Calculate Lone Oak's manufacturing overhead for the year.
2. Calculate Lone Oak's cost of goods manufactured.
3. Compute the company's cost of goods sold.
4. Determine net income for 20x1, assuming a 30% income tax rate.
5. Determine the number of completed units manufactured during the year.
6. **Build a spreadsheet:** Construct an Excel spreadsheet to solve all of the preceding requirements. Show how the solution will change if the following data change: indirect labor is \$115,000 and other factory costs amount to \$516,000.

All applicable Problems are available in Connect.

 connect

■ **Problem 2-37**
Content of Financial State-
ments and Reports
(LO 2-3, 2-4)

■ **Problem 2-38**
Financial Statement Ele-
ments: Manufacturer
(LO 2-5, 2-6)

2. Cost of goods manufactured: \$913,200
4. Net income: \$154,420

Required:

1. Determine the company's predetermined overhead application rate.
2. Determine the additions to the Work-in-Process Inventory account for direct material used, direct labor, and manufacturing overhead.
3. Compute the amount that the company would disclose as finished-goods inventory on the December 31, 20x2, balance sheet.
4. Prepare the journal entry needed to record the year's completed production.
5. Compute the amount of under- or overapplied overhead at year-end, and prepare the necessary journal entry to record its disposition.
6. Determine the company's 20x2 cost of goods sold.
7. Would it be appropriate to include selling and administrative expenses in either manufacturing overhead or cost of goods sold? Briefly explain.

Problem 3-47

Job-Order Costing in a Consulting Firm
(LO 3-1, 3-2, 3-4, 3-8)

1. Traceable costs: \$2,500,000



JLR Enterprises provides consulting services throughout California and uses a job-order costing system to accumulate the cost of client projects. Traceable costs are charged directly to individual clients; in contrast, other costs incurred by JLR, but not identifiable with specific clients, are charged to jobs by using a predetermined overhead application rate. Clients are billed for directly chargeable costs, overhead, and a markup.

JLR's director of cost management, Brent Dean, anticipates the following costs for the upcoming year:

	Cost	Percentage of Cost Directly Traceable to Clients
Professional staff salaries	\$2,500,000	80%
Administrative support staff	300,000	60%
Travel	250,000	90%
Photocopying	50,000	90%
Other operating costs	100,000	50%
Total	<u>\$3,200,000</u>	

The firm's partners desire to make a \$640,000 profit for the firm and plan to add a percentage markup on total cost to achieve that figure.

On March 10, JLR completed work on a project for Martin Manufacturing. The following costs were incurred: professional staff salaries, \$41,000; administrative support staff, \$2,600; travel, \$4,500; photocopying, \$500; and other operating costs, \$1,400.

Required:

1. Determine JLR's total traceable costs for the upcoming year and the firm's total anticipated overhead.
2. Calculate the predetermined overhead rate. The rate is based on total costs traceable to client jobs.
3. What percentage of cost will JLR add to each job to achieve its profit target?
4. Determine the total cost of the Martin Manufacturing project. How much would Martin be billed for services performed?
5. Notice that only 50 percent of JLR's other operating cost is directly traceable to specific client projects. Cite several costs that would be included in this category and difficult to trace to clients.
6. Notice that 80 percent of the professional staff cost is directly traceable to specific client projects. Cite several reasons that would explain why this figure isn't 100 percent.

Problem 3-48

Job-Order Costing; Focus on Overhead and Cost Drivers
(LO 3-2, 3-4, 3-5, 3-7)

Garcia, Inc. uses a job-order costing system for its products, which pass from the Machining Department, to the Assembly Department, to finished-goods inventory. The Machining Department is heavily automated; in contrast, the Assembly Department performs a number of manual-assembly